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C O N F I D E N T I A L SECTION 01 OF 03 NAIROBI 001015

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SUBJECT: AMBASSADOR MEETS KENYA'S NEW FINANCE MINISTER

Ref: A. Nairobi 973, B. Nairobi 494

Classified by Econ Counselor John Hoover for reasons 1.4  
(B) and (D).

¶1. (C) Summary: In his new job as Kenya's Finance Minister, Amos Kimunya wants to focus on repairing relations with donors, improving governance, and controlling government spending. Kimunya also told the Ambassador on March 3 that the Government of Kenya is moving ahead with major privatizations and procurement reforms, and will be tabling a long-awaited anti-money laundering bill in Parliament in April. Kimunya made a plea for greater help in building capacity at key institutions of governance such as the Attorney General's Office. The Ambassador expressed a shared desire for better GOK-donor relations, but noted that increases in assistance in key areas of governance can only succeed when Kenya's leadership summons the political will to take concrete action to address corruption allegations and ongoing political impediments to reform. End summary.

¶2. (SBU) The Ambassador paid a courtesy call March 3 on Amos Kimunya, Kenya's newly-appointed Minister of Finance. Kimunya moved over to Treasury from the Ministry of Lands on February 14 following the February 1 resignation of the former Finance Minister, David Mwiraria, in the wake of corruption revelations implicating Mwiraria in the Anglo-Leasing and similar scams (ref B). Kimunya was joined by Assistant Minister of Finance Peter Kenneth and staff from the Ministries of Finance and Foreign Affairs. The Ambassador was accompanied by the USAID Kenya Mission Director and Econ Counselor.

Priorities: Donor Relations, Governance, Budget  
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¶3. (SBU) Echoing public comments made earlier when he assumed his new position, Kimunya laid out three areas of priority attention during his tenure at Kenya's Treasury. First, he will work to restore confidence and good relations with the donor community. In this regard, he urged that donors work with the GOK privately and not engage in "dialogue through the media." Second, he acknowledged that Treasury "is in the spotlight" with regard to corruption problems, and that it is his intention to make the Ministry more central to better governance and integrity throughout the GOK as a way to make sure citizens are getting better value for their money. Noting that the GOK is facing an unexpected \$400 million outlay for drought

relief, the Minister said his third priority is cost containment in the budget. Revenues, he noted, have been rising sharply, but will soon level off. His intention therefore is to control costs to the extent possible, and where money can be saved, redirect it to social programs.

#### Privatization and Economic Reform

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¶4. (SBU) In response to a question from the Ambassador, Kimunya argued that Kenya is moving ahead quickly on privatization and other needed economic reforms. He noted that the GOK is moving forward with plans beginning in March to privatize 30% of KenGen, the country's power generator. Further, the Cabinet approved the previous week a long-awaited plan to restructure the country's monopoly landline phone company (septel) in preparation for selling it both to the public and a strategic investor. The GOK is also moving to reform the financial sector, and is putting together divestiture plans to reduce or eliminate government shareholding in large banks. It was crucial, he said, that all such plans be carried out transparently to avoid past cases of privatization in which valuable assets were "sold for a song" through crooked deals made by corrupt insiders. In this regard, he said, the GOK was moving to establish the Privatization Commission under the new privatization legislation passed in 2005. Also crucial in terms of improved economic governance, said Kimunya, will be implementing the new Procurement Act, also passed in 2005. The implementing regulations for the new law have been drafted and the GOK has put them out for public comment.

#### Anti-Money Laundering Bill Is Coming

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¶5. (SBU) The Ambassador also noted the importance of anti-money laundering (AML) legislation in the fight against graft, drug trafficking, and terrorist financing. Kimunya said the bill has not fallen off the GOK's radar screen. The GOK will finish final edits to the draft AML bill by the end of March, and then submit it as a priority to Parliament in April. (Note: The next session of Parliament is scheduled to begin on March 21. End note).

#### Governance and GFATM

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¶6. (SBU) The Ambassador noted that the U.S. is by the far the largest contributor to the prevention and treatment of HIV/AIDS in Kenya, and raised our concerns about Kenya's poor track record in attracting funding from the Global Fund for AIDS, Tuberculosis and Malaria (GFATM). This, he pointed out, is largely because of institutional bottlenecks in the Kenya Ministry of Health. Procurement under GFATM, the Ambassador suggested, needs to be moved away from the Ministry to a more competent entity, such as UNICEF. He and the USAID Mission Director urged Kimunya and the Finance Ministry to play a greater role in resolving this issue as a way to ensure that Kenya procures and receives needed HIV/AIDS medicines on a timely basis.

#### Millennium Challenge Account and Governance

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¶7. (SBU) Kimunya agreed on the need to "remove impediments" in the procurement of needed drugs, and used the topic to inquire about the status of Kenya's proposal for Millennium Challenge Corporation Threshold funding, which focuses on procurement reforms in the health sector. The Ambassador responded by saying the Threshold proposal is in "pause mode" in light of the serious allegations made public in January about high-level corruption and cover-up in the Kibaki administration. The U.S., he said, needs to

see concrete actions that indicate the GOK is serious about tackling corruption before moving forward on the Threshold program.

¶18. (SBU) Kimunya argued that Kenya faced a "chicken or the egg" dilemma with regard to the MCC Threshold proposal, as well as other assistance programs in support of improved governance. Kenya needs investment in governance if the latter is to improve, he argued, but donors don't want to provide assistance until there is improvement first. He cited the example of the Attorney General's Office, which he said simply lacks the capacity to keep up with corruption prosecutions based on investigations carried out by the better-staffed Kenya Anti-Corruption Commission.

¶19. (C) The Ambassador agreed with Kimunya, and said the U.S. will continue to support through our USAID Mission building capacity in governance. But he pointed out that the U.S. and others are frustrated by the lack of progress in many key governance-related areas, including support to Kenya's Department of Public Prosecutions under the Attorney General. Institutional bottlenecks, such as the continued lack of coordination between Kenyan police and prosecutors for example, have led to back sliding, and not progress, despite ample assistance from the U.S. and others. While the U.S. does not expect miracles in the prosecution of corruption cases, the Ambassador said that donor assistance will only be effective if the GOK chooses to exercise political will and takes concrete action to remove such impediments.

Comment

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¶10. (C) Kimunya is an interesting character. He is not linked to any of the several ongoing corruption scandals, and as a former CPA appears technically competent to assume his new job (see biodata below). That said, in his current role, he is perceived as more a politician and a NARC apologist than a reformer. Despite saying almost all the right things in his meeting with the Ambassador, his commitment to economic reform and fighting corruption appear less-than-full. Negative clues include his awkward defense of the ministers implicated in January by the

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Githongo revelations. On economic reform, we know from other sources that he only very grudgingly conceded to going along with the telecom reform plan approved at last week's cabinet meeting. But we should give Kimunya the benefit of the doubt for now. While we share his desire to improve GOK-donor relations, we fear he faces an uphill battle given decisions and events which may be beyond his control, such as the still-incomplete GOK response to the Githongo dossier, and the furor caused by last week's police raid of a leading daily newspaper (ref A).

Biodata

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¶11. (SBU) Amos Kimunya is 44 years old and ethnic Kikuyu. He is an accountant by background and a current Director of the Kenya College of Accountancy. He has worked for several accounting firms, including Neville Russell Chartered Accountants in the United Kingdom. Kimunya holds a Bachelor of Commerce degree from the University of Nairobi and became a Certified Public Accountant (Kenya) in 1997. He is a past Chairman of the Institute of Chartered Public Accountants of Kenya.

Kimunya served in government as a member of the Kenya Anti-Corruption Authority Advisory Board in the late 1990s, and continued in a similar role on the Anti-Corruption Police Unit Advisory Committee after the ill-fated KACA was declared illegal by the Supreme Court.

Kimunya ventured into politics for the first time in 2002 on the NARC ticket. He won the Kipipiri parliamentary seat and was appointed to the Cabinet in January 2003 as Minister of Lands. He has remained a diehard supporter of President Kibaki during his tenure in office.

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